

Testimony Of

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NEIL BRAUN

President, NBC Television Network

Before the
FEDERAL COMMUNICATIONS COMMISSION

En Banc Hearing on Digital Television
MM Docket No. 87-268

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NEIL S. BRAUN

President, NBC Television Network

Neil S. Braun was named President, NBC Television Network in May 1994. He reports to Robert C. Wright, President and Chief Executive Officer of NBC.

Prior to joining NBC, Braun had been Chairman and Chief Executive Officer of Viacom Entertainment Group since July 1992. Braun was also a member of Viacom's Operations Committee.

As Chairman of Viacom Entertainment, Braun oversaw production of prime-time network programming, first-run syndicated programming, international distribution, Viacom New Media -- the interactive media publishing division -- and licensing and merchandising departments. Braun joined Viacom in January 1988 as Senior Vice President, Corporate Development and Administration.

Prior to joining Viacom, Braun served as President and Chief Operating Officer of Imagine Films Entertainment, Inc. Before that, he was Senior Vice President, Film Programming of Home Box Office, Inc. (HBO), as well as Executive Vice President of HBO Video, Inc. In these positions, Braun headed HBO's film financing and home video activities, and was part of the negotiating team for the licensing of pay television rights from the studios. Braun, who had joined HBO in 1982 as Director, Motion Picture Planning, was named Vice President, Motion Picture Planning for the company in 1983. Among his responsibilities were pre-production acquisitions and long-range strategic planning within the motion picture industry.

From 1978 to 1982, Braun served as Senior Vice President and General Counsel of International Film Investors, a New York-based investment company. He also was a corporate attorney for Paul, Weiss, Rifkind, Wharton and Garrison from 1977 to 1978.

Braun is a member of the Board of Directors of the Advertising Council, Inc. Braun also serves on the advisory board of The Children's Health Fund, established by singer/songwriter Paul Simon and pediatrician Dr. Irwin Redlener, to initiate and support unique pediatric programs designed to meet the complex health care needs of medically underserved, homeless and indigent children.

Braun received a J.D. from the University of Chicago Law School in 1977 and a B.A. from the University of Pennsylvania in 1974.

SUMMARY OF TESTIMONY OF NEIL BRAUN

Digital broadcasting technology will create the potential for many new commercial services for consumers and businesses. However, as the FCC structures the regulatory framework for this new technology, it should remember a few fundamental and undeniable truths: First, free over-the-air broadcasting will not be able to compete long term against wireline, wireless and satellite delivered pay services unless it can offer the same high quality pictures and sound as its competitors. And that means high definition television using a full six megahertz of spectrum. Second, in terms of scale and revenue potential, there is no commercial opportunity created by digital broadcasting that remotely compares with the core free, over-the-air broadcasting business. Ancillary businesses using excess digital spectrum capability will provide broadcasters with important incremental dollars and the ability to compete in tomorrow's marketplace. But broadcasters will succeed or fail based on the success or failure of the service we know today as broadcasting, not because of supplemental, add-on services made possible by digital technology. Third, without free, over-the-air television as a foundation for and marketplace driver of digital broadcasting, consumers will take a lot longer to purchase digital equipment, and many of the new services you will hear about today will either never be launched, will fail, or will be only marginally successful. Finally, if broadcasters cannot compete on a technologically level playing field, it will have consequences not only for the future of free, over-the-air television and the potential for new commercial digital broadcast services, but for the U.S. economy and the fabric of our

society.

The future of broadcasting should be determined in the marketplace on a level playing field. It should not be condemned to a competitive death because government ordains that broadcasting must compete as an analog service against the digital pay TV services of tomorrow.

Testimony Of
NEIL BRAUN
President, NBC Television Network
Before the
FEDERAL COMMUNICATIONS COMMISSION
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My name is Neil Braun and I am President of the NBC Television Network. I am honored to be invited to speak to you today and, in particular, to be part of the discussion on the "Commercial Opportunities of Digital Broadcast." Over the course of my career I have worked in many facets of the video business, including pay cable and home video (as Senior Vice President, Film Programming of HBO and Executive Vice President of HBO Video), theatrical motion pictures (as Chief Operating Officer of Imagine Films Entertainment), television program production and distribution (as Chairman of Viacom Entertainment), interactive media (also at Viacom), and now network broadcasting. Given the number of different hats I have worn over the past 17 years, I have a very clear picture of where broadcasting currently fits into the mix of video services to the home, and where it is likely to fit as we move into the digital age.

Digital technology will revolutionize all telecommunications in this country. Today you will hear from many witnesses about the potential of digital to expand the number and type of video and data services that will be available to consumers. While I agree that the potential for new services is vast and exciting, my testimony has a different

focus. My goal today is to have you remember a few fundamental and undeniable truths as you create the regulatory framework for digital broadcasting: First, free over-the-air broadcasting will not be able to compete long term against wireline, wireless and satellite delivered pay services unless it can offer the same high quality pictures and sound as its competitors. That means high definition television using a full six megahertz of spectrum. Second, in terms of scale and revenue potential, the core broadcasting business is like the Mall of America and so-called ancillary and supplementary digital broadcasting services are like boutiques. The revenue and value of these services will be important to the competitive vigor of broadcasters faced with competitors who will also have digital capabilities. But broadcasters will succeed or fail based on the success or failure of the service we know today as broadcasting, not because of supplemental, add-on services made possible by digital technology. Third, without free over-the-air television as a foundation for and marketplace driver of digital technology, consumers will take a lot longer to purchase digital equipment. Moreover, many of the new services you will hear about today will never be launched, and many that are launched will fail or will be only marginally successful. Finally, if broadcasting cannot compete in the digital, high definition revolution, it will have serious consequences not only for free over-the-air television, but for our economy and for the fabric of our society.

1. To remain competitive, broadcasters must be able to provide high definition television. If broadcasters cannot compete on a technologically level playing field, we

will inevitably lose audience and will not be able to sustain the level and type of programming service we provide today. As ratings and advertising revenues decline, so will the resources for programming. The first thing to go at the station level will be the huge expense of local news, and the first thing to go at the network level will be big, costly events like the Olympics and NFL football. This is not hyperbole. Major league sports are already loss leaders on network television. Despite the current success of some broadcast networks, our business remains fragile, volatile and cyclical. If audience levels decline across the board, broadcast networks simply will not be able to afford the luxury of loss leaders.

Some have argued that broadcasting does not need to provide “true” high definition television in order to compete against the telcos, cable, satellite programmers -- all of which will have the technical ability to offer motion picture quality pictures and CD quality sound. They want to give broadcasters just a sliver of the six megahertz set aside for the transition to high definition television, leave us stuck with the digital equivalent of NTSC quality pictures, and release the remaining spectrum for auctions or other uses. Let there be no mistake. This scenario spells disaster for the future of free over-the-air broadcast service.

Let me try to convey what will happen competitively to broadcasters if the government consigns us to NTSC quality technology with an illustration we can all relate

to. Let's assume that cable, home video and satellite delivery were competitors to broadcasting in the 1950's. And let's further assume that every one of those technologies had the ability to move to color except broadcasting, which was stuck in a black and white format. Does anyone seriously believe that broadcasting would have been able to sustain a competitive position as a black and white medium in a color world? Today classic Hollywood movies are colorized for the syndication market because television audiences simply don't want to watch in black and white. Black and white television programs are a symbol of the past, found on niche cable channels that feature nostalgia. It is not an acceptable format for an advertiser-supported medium that must attract a mass audience.

One of the Commission's biggest challenges is to figure out how to create a consumer market for digital sets so that the transition can take place as quickly as possible. Will consumers invest in digital television sets if they cannot get their favorite programs in high definition? Maybe, but it will take an awfully long time. Ten years after color television was introduced, only 20% of American consumers had opted to buy a color set. How much lower would the set penetration rate have been if RCA hadn't decided to broadcast all NBC's programs in color, or worse, if government policies had prevented NBC from moving to color?

Arguably, color television was only an incremental improvement in television

technology, akin to larger screens and stereo sound. The change from analog to digital is not incremental. It is a fundamental alteration of the technical “genetic code” of communications. Leaving broadcasters behind with NTSC quality pictures and sound would be a crippling blow in a world where audiences are accustomed to high definition experiences. Broadcasters must be able fully to participate in this technological change in order to remain a meaningful competitor providing video services to the home.

2. Ancillary and supplementary digital broadcasting services will be important, incremental businesses, but they are unlikely to compare to our foundation -- free over-the-air broadcasting. No matter how much flexibility Congress and the FCC give broadcasters to use digital technology for new ancillary and supplementary services, there is no way businesses like datacasting or paging will ever compare -- in terms of scale and revenue potential -- to the core broadcasting business. In 1994, television stations and networks generated \$29 billion in advertising revenues. This is the amount of revenue required to fund hundreds of hours of original entertainment programming, local news operations, international newsgathering , and the acquisition of major sports rights. Ancillary businesses using excess digital spectrum capability cannot generate revenues even remotely close to this level. There is no question that these businesses will provide important, incremental dollars; there is no question that these businesses and capabilities will enhance the ability of broadcasters to compete in tomorrow’s marketplace; but they will not determine broadcasters’ ability to continue the programming service the public

has come to expect and enjoy.

My basic point is that in the digital age broadcasters' core business will still be broadcasting, and our companies will succeed or fail on the strength of that business. If government policies undermine this core business, or if the health of the business declines because we cannot compete on a level playing field in the digital age, the other capabilities of digital transmission won't save us. If, on the other hand, the broadcasting business remains healthy, ancillary and supplementary uses of digital spectrum potentially can provide new, competitive services to the public and incremental dollars to broadcasters' bottom lines.

3. Broadcasting will be the foundation for and driver of the new services made possible by digital technology. If the core broadcasting service loses audience -- loses its mass appeal -- because it cannot compete in the digital age, it will take consumers far longer to move to digital video technology, and all digital services will suffer. On the other hand, if broadcasting can fully participate in digital technology, and is allowed to take its natural place as the foundation and launching pad for new services, the consumer's acceptance of digital technology will be accelerated and more new services will be launched successfully.

Because of its universality and popularity, broadcast television, and particularly

network television, has two unique attributes. First, it has the resources to underwrite the production of expensive programs that attract mass audiences. Second, with access to those mass audiences, broadcasting can provide the exposure required to launch and promote new products, whether they are new network series, new consumer products or new digital television services. Today broadcast networking is considered a highly valuable business, not because the core network business is currently experiencing economic success, but because it is recognized as the economic and promotional engine for the success of new programs and services in other media.

Broadcast networks fund significant amounts of costly original television production and promote those productions so they can be exposed to a mass television audience. The expensive, high quality programming that gets funded and exposed on network television then becomes the audience driver for other “narrowcast” services. The most popular shows on cable are programs that were originally funded by and created for one of the broadcast networks. During a typical week, the USA Network offers “Murder, She Wrote” and “Wings,” Lifetime offers “The Commish” and “Unsolved Mysteries,” TNT shows “Charlie’s Angels” and “In The Heat of the Night,” the Sci-Fi channel has “Twilight Zone,” the Family Channel has “Columbo”... I could go on, but you get my point. There is no way that these cable services could afford to produce the same volume of entertainment programming with the production values viewers have come to expect. Broadcast networks spend nearly a million dollars on an hour of original programming.

While cable networks' budgets have ballooned in recent years, and the production costs of their original programs can sometimes hit broadcast network levels, the broadcast networks combined still outspend the cable networks by a factor of three or four. So cable programmers rely on programs that were originally exhibited on one of the networks to get people to watch, and then they use those programs as vehicles to promote their own, original productions.

New digital services geared for the mass consumer market are unlikely to succeed without the amortization and promotion power of broadcast television behind them. The niche services of other distribution media will drive niche digital services, but no more. There is a critical difference between access to audience and delivery of an audience to a program or service. Many programming services may boast access to a significant majority of the American public, but they cannot deliver people to a program. For example, when Michael Jordan returned to NBA basketball last year NBC's research department conservatively forecast that his first home game would get an 11 rating on the NBC Network. We were not able to get the rights to the game, which belonged to the TNT cable network. Despite the excitement and media hype surrounding Jordan's return to basketball, the TNT cablecast was only able to muster a 2.1 rating on a comparable national basis. Why? Because without the phenomenal promotional power and reach of the NBC Network, most viewers didn't know where to find the game.

The bottom line is that without strong and competitive free over-the-air broadcast television, our collective dream of realizing the full potential of digital technology may take decades to achieve, or may never be achieved at all.

4. If broadcasting cannot compete on a level playing field in digital technology, it will affect more than television. The unique promotional power of broadcast television has been harnessed by American companies to launch new products and services. Would McDonald's have sold 5 billion Big Macs without television advertising? Would Tylenol, then Advil and now Aleve have been able to challenge aspirin? Would Federal Express have been able to compete with the U.S. Postal Service? If broadcast television is not allowed to compete, and its audience erodes, this unique vehicle for new product launches will be lost to our economy.

But the competitive decline of broadcast television will affect more than the GNP. Local and network broadcast television remains this nation's great unifier -- the one medium that provides the same high quality news, entertainment and sports programming to both the haves and the have nots -- the most widely shared experience of our society. While the proliferation of niche services may be good for the individual consumer who likes gardening or opera, it may not be so good for American society if, as these services pull people in different directions, the one mass medium -- broadcasting -- can no longer attract enough of an audience to play its unifying role. Family members are already

watching different television shows in different rooms. I, for one, would not like to see this country become even more splintered than it already is. But most importantly, the future of broadcasting should be determined in the marketplace on a level playing field. It should not be condemned to a competitive death because government ordains that broadcasting must compete as an analog service against the digital pay television services of tomorrow.

Digital broadcasting clearly has the potential to offer consumers a wonderful array of new services, and to provide the business community with a number of exciting new commercial possibilities. But I urge you not to be so dazzled by those possibilities -- which today exist only in the minds of entrepreneurs -- that you ignore several critical realities: that free over-the-air broadcasting must be able to compete with full high definition pictures and digital sound; that ancillary or supplementary digital broadcast services will provide important supplementary revenue opportunities, but cannot compare with the potential of the core broadcasting business; that if government policies prevent broadcasters from competing, the full potential of digital technology may never be realized; and that the competitive decline of free over-the-air broadcasting has ramifications for our nation that go far beyond television itself, affecting our economy and our society.